EAST MED: THE POSSIBLE DOWNSIDE OF AN ENERGY BOOM

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An energy boom is not always synonymous to economic growth. In fact, the opposite is often true. New riches carry dangerous promises, a phenomenon often referred to as the 'resource curse'. It is wrongly believed that monetizing natural resources automatically boosts an economy and solves all its problems. It is true that given the extensive human capital that an oil and gas industry requires, directly (through oil and gas jobs) or indirectly (through the supply of goods and services to the industry), the unemployment rate will decrease. Moreover, national projects of great importance such as infrastructure, education and health can be financed as a result of exports revenues and the reduction of the energy bill. The inflow of foreign exchange from the sales of hydrocarbon to export markets also creates an efficient hedging against an eventual fluctuation in the balance of payments.

But to assume the great health of an economy just because a country has been blessed with hydrocarbons is too simplistic. Many countries offer a great example of why caution is necessary. For a country's energy industry to benefit the economy as a whole, adequate policies, procedures and institutions need to be in place. Transparency, accountability and a strong corporate governance invite investors to participate in the development of a country's energy resources. Strong regulatory and judicial systems are necessary tools to fight corruption, prevent political parties from achieving monopolistic ambitions and foster political stability creating an adequate atmosphere for energy prosperity. While Israel and Cyprus have strong judicial and regulatory systems and mechanisms, an effective application of the laws in place is paramount.

An awareness of the Dutch Disease syndrome is also essential for countries developing their energy sector. The term was coined by the Economist in 1977 after the Netherlands discovered large natural gas deposits in the North Sea. The sudden increase of wealth had negative repercussions on important sectors of the economy. The strengthening of the Dutch guilder tremendously affected the country's exports when non oil exports, suddenly too expensive, lost in competitiveness. The risk of a country catching the Dutch Disease after it discovers large amounts of hydrocarbon wealth is proportionally related to the size of the energy sector in the economy as a whole. Despite the substantial amounts of natural gas in Israeli waters, particularly after the discovery of the Leviathan field estimated at 19 tcF, the energy sector in Israel remains comparable in size to other sectors (representing around 2.5% of the country's

GDP), a fact that significantly buffers the danger of the disease. Cyprus however, with a smaller economy still recovering from a severe financial crisis, is likely to be more vulnerable. An energy boom is often followed by a capital and labor shift towards the energy sector negatively impacting other industries sometimes forced to close their doors. Cyprus' membership in the EU will however ensure the island receives policy guidance both from the EU alongside the IMF that will prove very useful.

An effective fund management is an efficient tool to counteract this risk, prevent inflation and release the pressure on the domestic economy. Investing the new funds abroad and creating a sovereign wealth fund are techniques that have been adopted in the past and achieved great results. Significant efforts must also be invested in the lagging sectors in an effort to ensure their continuity and keep the export portfolio of the country diversified and less vulnerable to sudden changes in the energy markets that could affect commodity prices. Because volatility in commodity prices is inevitable, policy makers must adopt a holistic approach to resource management within their policy capability. A liquidity buffer through savings will prevent negative repercussions on a country's economy when prices suffer commodity volatility.

Neighboring Lebanon too might be blessed with hydrocarbons. The country has not yet launched its exploration phase but it is believe that substantial oil and gas deposits are likely to be found under its seabed. Substantial interest in Lebanon's hydrocarbon potential was expressed earlier this year when 52 companies from 25 different countries participated in its pre-qualification round. Such an enthusiasm came as a sign of confidence in Lebanon's resources and in the capability of the country to pursue the project all the way to fruition. Progress has stalled since, imposed by the calamity next-door in Syria. It is believed that efforts will be resumed as soon as political stability is restored. Lebanon could use the rewards of an energy boom to reduce its burdening $57 billion public debt. The country hopes that the development of hydrocarbon resources will reduce poverty and improve the standards of living. Appropriate planning and precise, detailed and transparent policies and procedures will ensure a fair distribution of revenues and the prevention of corruption.

The Eastern Mediterranean countries, on their way to develop and monetize their riches, have the geology that could enable them to transform their economies. They are not the first ones on this path towards energy security and economic prosperity. In fact, they can use examples and lessons from other commodity producers in the world to avoid certain mistakes and adopt efficient policies and mechanisms that will ensure long term progress and maximize the benefits of hydrocarbon wealth. Geopolitical obstacles are yet to be overcome, and swiftly, in constantly changing energy markets. Fast and precise action is definitely recommended.